UNITED STATES DEPARTMENT OF AGRICULTURE
Commodity Stabilization Service

EVOLUTION OF THE PRICE SUPPORT PROGRAM 1/

Price support was undertaken for the first time in 1933 when loans were made on corn and cotton. But the evolutionary process that produced the price-support program started at least as early as 1920, with the collapse of agricultural prices.

1920-28

The severity of the price break that began in 1920 was unparalleled. Already inflated by World War I needs, agricultural prices had been pushed even higher after the end of the war by heavy demands from European countries. In May 1920 the general level, or index, of prices received by farmers stood at 236 percent of the 1910-14 average. From this peak the decline started. By September the index had dropped to 201, and by December to 148. In March 1921 it reached 127 and, by June, 112. Prices recovered some from the June 1921 low point, but they stayed at relatively depressed levels for the next few years, a circumstance which brought considerable agitation for farm relief.

Most of the relief proposals revolved around two-price plans, which in essence, would have provided a price for foreign sales considerably lower than the price for the portion sold in the United States. Although the two-price plans differed in detail, their theoretical bases were similar: Low export prices were expected to expand foreign markets for American farm products; the increased export flow, it was believed, would shorten domestic supplies, thereby strengthening domestic prices; and the "blend" of low export prices and high domestic prices would, it was hoped, mean improved returns for producers. The two-price schemes proposed in the 1920's went under various names--export debenture plan, domestic allotment plan, and equalization fee plan. The latter, incorporated in a legislative proposal known from its Senate and House sponsors as the McNary-Haugen Bill, was introduced in Congress five times in various forms. Congress approved the bill twice, in 1927 and 1928, but it was vetoed both times.

1929-32

In the meantime, a proposal to establish a special Government board to assist farmers in setting up and managing cooperative marketing organizations had received strong endorsement from some groups. This idea eventually was adopted, with passage of the Agricultural Marketing Act of 1929. That legis-

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lation provided for a Federal Farm Board "to promote the effective merchandising of agricultural commodities * * * and to place agriculture on a basis of economic equality with other industries" and provided a revolving fund of $500 million for carrying out these purposes. The Board in its operations stressed the development of nationwide farmer-owned cooperative marketing systems to which it made loans. With the borrowed funds the cooperatives attempted in various ways, including advances to farmer members on stored commodities, to promote orderly marketing and stabilize prices. When prices continued to decline, the Board made loans to stablization corporations (owned by cooperatives), for the purchase of commodities, chiefly cotton and wheat. Still prices fell, and the stablization corporations were forced to acquire larger and larger stocks until, in 1932, with most of its $500 million revolving fund tied up in commodity inventories, the Board discontinued making new loans. In May 1933 the Board was abolished and its assets transferred to the Farm Credit Administration.

1933-37

The Federal Farm Board's experience helped to shape the Agricultural Adjustment Act of 1933, which provided production controls on wheat, cotton, rice, tobacco, corn, hogs, and dairy products--the commodities affected by the act's price stabilization features. The controls were implemented by Government payments to cooperating producers, the payments being financed out of taxes imposed on processors of the controlled commodities.

It became apparent within a matter of months, however, that enhancement of agricultural prices and incomes through control of acreage and livestock numbers would be a slow process, and that some immediate action was needed. In this economic climate the Commodity Credit Corporation (CCC) was created under the President's emergency powers in the fall of 1933 and given wide authority "to purchase . . . hold . . . deal in . . . sell . . . any and all agricultural . . . commodities . . . and to loan . . . money upon the same." The first price-support operations started on a permissive basis in October 1933 when loans were made on corn at the rate of 45 cents a bushel and on cotton at 10 cents a pound. Up to 1938, prices of corn, cotton, tobacco, and naval stores were the only ones that had been supported. In the meantime, however, some events were taking place which were to increase greatly the importance of price support.

The Supreme Court in January 1936 declared unconstitutional the production control features of the Agricultural Adjustment Act of 1933 and also ruled against processing taxes on the ground that they were an inseparable feature of the production control plan. Later in the year, the Soil Conservation and Domestic Allotment Act of 1936 became law; but this act, although it made for improved land use, was inadequate for production control. Heavy crops of wheat and cotton in 1937, accentuating the twin problems of surpluses and low prices, led to passage of the Agricultural Adjustment Act of 1938.

1938-48

The Agricultural Adjustment Act of 1938 which, in amended form, is still in effect, provided for (1) mandatory price-support loans at 52-75 percent of parity on corn, wheat, and cotton; (2) when necessary, marketing quotas on tobacco, corn, wheat, cotton, and rice, keyed to acreage allotments, which were intended to keep supplies in line with market demand; and (3) permissive supports for other agricultural commodities. (Curiously, there were no specific upper limits on support for permissive commodities other than the overall objectives of the act, whereas the mandatory commodities could not be supported above 75 percent of parity.)

CCC, of course, already had authority under its charter to support prices of virtually any agricultural commodity--and still has. CCC has supported at one time or another since 1933 prices of well over 100 different permissive commodities, if fruits for processing, vegetables for processing, and various types of seeds are included.

Price support increased in importance during the 1941-48 period, supports being used as an incentive to encourage the heavy production of farm products required to meet war and immediate postwar needs. Supports for the mandatory basics--a list expanded early in the war period to comprise corn, wheat, cotton, rice, tobacco, and peanuts--were brought, generally speaking, to the 90-percent-of-parity level, although cotton was supported in the 1944-48 period at somewhat higher levels.

Support also was made mandatory during the 1941-48 period on the Steagall commodities, which took their name from the late Henry B. Steagall, Representative from Alabama. Congressman Steagall introduced Federal legislation calling for mandatory supports, first at not less than 85 percent and later not less than 90 percent of parity, on nonbasic commodities for which the Secretary of Agriculture had publicly asked for an expansion of production for war purposes. This support was made mandatory for the duration of the war and for 2 years following the end of hostilities which, as it turned out, meant through December 31, 1948.

1949-54

By 1949 the agriculture of Europe and Asia had recovered to a considerable extent from the disruptions of World War II and foreign demand for American farm products declined sharply. In the meantime, however, crop production in this country had been on the upgrade. This supply-demand situation had several results: Prices received by farmers for their commodities declined, increased support activity became necessary, and surpluses began to build up. Postwar support legislation reflected to some extent the changed economic climate.

Title I, Agricultural Act of 1948, which replaced wartime price-support legislation, maintained rigid support levels for the basic commodities and certain of the Steagall commodities until January 1, 1950, but provided flexible supports for the other Steagall commodities during this period. It extended until June 30, 1950, the fixed support level for wool.

The Agricultural Act of 1949 authorized and directed even wider departures from World War II price-support patterns. It retained mandatory supports on the basic commodities, but provided for eventual use of flexible support levels. 2/ It wiped out the Steagall classification and made support mandatory at flexible levels for a new list of designated nonbasic commodities--wool and mohair, 3/ tung nuts, honey, milk, butterfat, and Irish potatoes. 4/ It provided for permissive supports on other commodities.

In June 1950, the free world took action in Korea to stop communist aggression. The outbreak of hostilities in that country stimulated both domestic and foreign demand for American agricultural commodities. As a result, the general level of prices received by farmers rose sharply, advancing in 1951 about 17 percent above the 1950 level. As prices rose, support activity declined and surpluses began to move. Demand continued strong, and the Department of Agriculture suspended all acreage allotments then in effect, except on tobacco and peanuts. Production goals, which had been initiated for cotton in 1950, to stimulate output, were established in 1951 for a number of other crops.

American agriculture has a high production potential in time of war or peace. Despite shortages of manpower, machinery, fertilizer, and other essentials, output rose steadily and by 1953--when the cease-fire agreement was negotiated in Korea--was considerably in excess of effective demand. Prices received by farmers weakened somewhat; increased price-support activity became necessary; surpluses accumulated; marketing quotas were proclaimed for 1954-crop wheat, peanuts, tobacco, upland cotton and extra long staple cotton; and acreage allotments were proclaimed for 1954-crop corn.

2/ As originally enacted, the legislation provided for mandatory supports at 90 percent of parity on any 1950-crop basic commodity if producers had not disapproved marketing quotas for that commodity, and within a range of 80-90 percent on 1951-crop basics, minimum levels, as now, to depend upon the supply situation.

3/ Price support for wool and mohair is now mandatory under the National Wool Act of 1954, not the Agricultural Act of 1949. Wool and mohair, therefore, are no longer considered designated nonbasic commodities.

4/ Although the Agricultural Act of 1949 made support mandatory for Irish potatoes, the act of March 31, 1950, provided that potato prices could not be supported unless marketing quotas were in effect. Because there is no legislative authority for the use of marketing quotas on potatoes, the act of March 31, 1950, had the effect of prohibiting price support for potatoes. The Agricultural Act of 1954 removed potatoes from the category of designated nonbasic commodities and also repealed the section of the act of March 31, 1950, which prohibited price support on Irish potatoes unless marketing quotas are in effect.

During the 1950-54 period, support levels for the basic commodities were maintained, generally speaking, at 90 percent of parity. 5/ (There was one exception: The price of 1951-crop peanuts was supported at 88 percent. Also, special provisions govern supports for tobacco.)

1955-56

Surpluses continued to mount. By October 1954, the cost value of CCC inventories exceeded $4 billion. By November 1955 the inventory had a value in excess of $6 billion.

The Agricultural Act of 1954 provided flexible supports for 1955 basics within a range of $82\frac{1}{2}$-90 percent of parity. For the first time since early in the 1940's, prices of wheat, corn, extra long staple cotton, and rice were supported at less than 90 percent. For 1956 crops, supports could range between 75-90 percent, minimums to be based on the supply situation. Supports for all basics except tobacco were established at less than 90 percent.

The Agricultural Act of 1956 provided for a soil bank program to assist farmers to divert a portion of their crop land from the production of excessive supplies.

The computation of parity and various other parity provisions were affected by the Agricultural Acts of 1948, 1949, and 1956.

5/ Supports at 90 percent of parity were assured under a provision of the Agricultural Act of 1949 for any 1950-crop basic commodity for which producers did not disapprove marketing quotas. Although flexible provisions at the 80-90 percent of parity range became effective for 1951-crop basics, supports were kept at 90 percent, except for 1951-crop peanuts, because of war in Korea. Flexible provisions at the 75-90 percent range became effective for 1952-crop basics, but supports in 1952 again were maintained at 90 percent because of the Korean situation. An amendment to the Defense Production Act provided 90 percent supports on 1953-crop basics. An amendment to the Agricultural Act of 1949, furthermore, made supports mandatory at 90 percent of parity on any 1953- or 1954-crop basic commodity for which producers did not disapprove marketing quotas.